What is the Association Between Ethnicity and Income Inequality in Developed and Developing Countries?

By: Roneka Matheny

Prize: M. Karen Bracken

Faculty Sponsor: Salvatore Pitruzzello
What is the Association Between Ethnicity and Income Inequality in Developed and Developing Countries?

1. Introduction:

What is the association between ethnicity and income inequality in developed and developing countries? This question is central to the societies of all countries with income inequality gaps and majority-minority racial structures. Political scientists and economists agree that income inequality is a serious problem among developed and developing countries alike, but they have yet to discover all of the factors that are associated with this problem. It has been observed that in countries with large income inequality gaps and majority-minority racial structures, minorities are usually concentrated in the poorest sectors of the economy. This phenomenon has been largely ignored and dismissed as either a result of class struggles or the disproportionate abilities between ethnic groups. As a result there is minimal literature on this relationship.

For this paper, I have chosen to research a developed and developing country: the United States and Brazil. I decided on these countries because they both have high income inequality and comparable racial structures. I have chosen to research these countries during the decade of the 1980s. I decided on this time period because it was a period when the average income of both areas was relatively stable and also because a large amount of international census information is available for this time.

The findings of this study clearly show that a strong association exists between ethnicity and income inequality. Although political scientists and economists have devised a host of alternative explanations to account for the large racial wage gap in these two countries, I have shown that after controlling for these factors, there is still a large portion of the wage gap left unexplained. This unexplained portion must therefore be a
result of race specific factors; this proves an association between ethnicity and income inequality.

This paper is organized into seven sections. Section 2 examines the historical problems caused by income inequality and examines some known contributing factors. Section 3 focuses on the various theories contemporary political scientists and economists have on the association between ethnicity and income inequality. Section 4 explains my answer to these theories. Section 5 explains my reasoning behind my choice of countries and time periods. Section 6 examines my research, which proves that there is an association between ethnicity and income inequality in both countries. And finally, Section 7 concludes the paper by reviewing my research and my feelings on the association between ethnicity and income inequality.

2. Historical/Political Significance:

Even in the most democratic of societies, there exists a gap between the richest and the poorest sectors of the population. There have been many attempts in political and economic thought, which have tried to devise ways to explain and close this gap. So far none of these attempts has succeeded. Most agree that poor distributions of wealth in developed and developing countries is caused by factors such as overall investment in human capital, political corruption, education, and family structure. However, most political scientists and economists also agree that there are many yet undetermined contributors to the problem of income inequality. So the question still remains: what causes income inequality, and what can be done to stop it? This question is central to the societies of all countries with income inequality gaps, but—as this paper will show—it is especially important to those countries with majority-minority racial structures.
Although income inequality gaps may be higher in developing countries, they exist even in the most elite of the industrialized nations. No international organizations and very few political scientists and economists have recognized a relationship between ethnicity and income inequality. But they cannot deny the fact that in countries with majority-minority racial structures and large gaps between the rich and poor, the members of the minority are usually concentrated in the poorest sectors of the economy. This is true of both developed and developing countries. If an association can be realized between ethnicity and income inequality, then maybe countries and international organizations will have a better understanding of the causes of this problem and possibly be one step closer to solving it.

3. Theoretical Importance:

There does not seem to be a satisfactory level of research on this issue. Although many political scientists and economists have theories about income inequality in developed and developing countries, most fail to see any association with ethnicity. In fact, some fail to see income inequality as a problem at all.

Economists in this school of thought agree that the United States has the largest gap between the rich and poor of all industrialized nations, but they believe that this is because of the country’s overall wealth. They see the US as having better living conditions—even among the poor—than other nations; and therefore view the US economy as a system in which everyone benefits, “just some more than others.”¹ These economists are quick to compare the middle class and some cases rich of other countries, who have luxuries like swimming pools, televisions, and telephones, to the poor in the US, who they claim have the same amenities.²
Others believe that the poorest sector of the US population is not getting poorer (as some economists have theorized), but rather the middle class and richest sectors are prospering at a rapid rate, leaving the poor behind. Economists subscribing to this theory blame the poor’s inability to progress on declining family structure and the government Welfare system. Their research shows (after adjusting for inflation) that about the same amount of families earn $10,000 or less a year as twenty-five years ago, but the amount of families earning from $10,000 to $50,000 a year has decreased because they are making more. They attribute this to the increasing demand for more skilled workers in the US labor market. Their research also shows that the increase of single-parent families and welfare abuse account for the seeming decline of the poorest sector of the US economy. This is because single-parent families only have one income instead of two and any welfare assistance is not counted as income.\(^3\)

Among political scientists and economists that do recognize growing income disparity as a problem are US economists William Darity, Jr. and Samuel Myers, Jr. They believe that racial discrimination is the cause of the large income gap in the US. Their research shows that the more conventional explanations of lacks of skills and education in blacks and Hispanics are misleading and not sufficient enough to explain the recent growth of black-white income disparity and the concentration of blacks and Hispanics at the bottom of the US economy. This is because blacks still make lower wages than white with the same levels of education and skill. Their research also disputes the theory that changing family structure can account for racial wage disparity. They show that from 1970 to 1991 the rates of female headship rose as much for white families as for black families.\(^4\)
In Brazil, Edward Telles sees income inequality as a major problem and relates it to ethnicity. In his research, he shows that in Brazil black males make only half the average income of white males. Blacks and mulattos are consistently concentrated in the poorest sectors of the economy; because of this, they "experience less social mobility and are more likely to be employed in the urban informal labor market." He links this to ethnic residential concentration in the poorest areas and neighborhoods of the country. According to his research, the poorest and most overcrowded areas of cities are inhabited by blacks and dark-skinned mulattoes, while the middle class sections are usually inhabited by whites and occasionally light-skinned mulattos.

Ney dos Santos Oliveira agrees with Tolles. He also recognizes how Brazilian income inequality affects residential segregation. In his research, Oliveira compares the favelas of Rio de Janiero and the ghettos of New York City. He shows the similarities in the racial segregation in both areas and relates these similarities to below average income similarities for blacks and Hispanics in the US and blacks and mulattos in Brazil.

4. My Theoretical Answer:

Political scientists and economists agree that income inequality is a large problem for developed and developing countries alike, especially for the United States and Brazil. They do not agree, however, on the causes of this problem. The goal of this research is to improve the studies in this area. In this paper, I intend to prove an association between income inequality and ethnicity and show that this association exists in both developed and developing countries.

The core of my explanation lies in the fact that members of ethnic minorities are constantly concentrated in the poorest sectors of the economy in both developed and
developing countries. Darity and Meyer's and Telles's research shows that in both the United States and Brazil, ethnic minorities make only a fraction of the average wage of the white majority. Their research also shows that the conventional explanations of lack of skills and education and even changing family structure do not account for these large wage differences. Along with Oliveira and Lovell's research, the focus is clear: being a member of an ethnic minority is a sure indicator that a family will be concentrated in the lower end of the income inequality spectrum. Tolles and Oliveira's research also shows that because ethnic minorities are the victims of income disparity, they are usually forced to live in poorer and more overcrowded areas, which make it difficult for them to gain equal education and acquire equal skills.

5. Research Methodology:

I will compare a developed and developing area that both have large income inequality gaps with comparable racial structures. I intend to compare the United States and Brazil. I have chosen these countries for two reasons. First, they are both extremes; the United States has the highest income inequality of the developed nations and Brazil has the highest rates of income inequality of the developing nations. This shows how income inequality is a problem that exists in the same magnitude in developed and developing areas alike. Second, I have chosen these countries because they both have comparable racial structures. In the United States, whites are the majority with blacks and Hispanics as the minority. In Brazil, whites also comprise the majority, leaving blacks and mulattos in the minority.

The time period on which my research is based is the decade of the 1980s because this is when average income for both areas was most stable. This is also when
the results of the last comprehensive census taken are available. My research includes information from the US Census Bureau and the CIA international factbook. My research also includes the works of US economists William Darity, Jr. and Samuel Myers, Jr. and Patrick Mason and Brazilian economists Ney dos Santos Oliveira, Rodolfo Espinoza, Edward Telles, and Peggy Lovell.

6. Empirical Analysis:

The following is evidence to prove that there is an association between ethnicity and income inequality in both developed and developing countries because in countries with large gaps between the rich and poor and majority-minority racial structures, minorities are usually concentrated in the poorest sectors of the economy.

Even in the most democratic of societies, there exists a gap between the richest and the poorest sectors of the population. This gap represents the income inequality of the country. It ensures that those in the richest sectors of the economy continue to gain assets, becoming richer and richer. It also ensures that those in the poorest sectors of the economy have much difficulty gaining assets, becoming poorer and poorer.

In countries with a majority-minority racial structure, the minorities are often concentrated in the poorest sectors of the economy, while the majorities are distributed throughout the middle and upper-class sectors. The existence of some majorities in the poorer sectors makes it obvious that class and economic dispersion is not based solely on race. This is not my claim. My question is rather why does there seem to be such a large concentration of minorities in the lowest sectors of the economy. In one country this may be due to certain extraneous factors, but this phenomenon occurs in basically all countries with large income gaps and majority-minority racial structures.
8.1 The United States: The United States has one of the largest income inequality gaps in the developed world. No advanced industrialized country has a larger gap between its rich and poor. The United States has a majority (white) and a minority (black) racial structure. According to the CIA international factbook, the ratio of whites to blacks is 83 to 13, but other minorities-most notably Hispanics-comprise an extra 5 percent of the population.8

General income inequality in the US has been rising for the last quarter-century. From 1968 to 1994 it has risen over 6 percent.9 But throughout these years, blacks have been consistently making lower wages than whites. From 1975 to 1990, blacks earned an average wage of 25 percent less than their white counterparts. Why is this? US economists usually belong to one of two schools of thought on this issue. The first is called the “labor quality hypothesis”. These economists believe that blacks make less than whites because of inequality in “premarket” (labor market) opportunities and institutions. This refers to a black inferiority in schools and skill-training institutions. Basically, these economists believe that racism and discrimination have no place in the labor market and any disproportionate wage between blacks and whites must be due to inferior labor quality.10

The other school of thought on this issue is the “discrimination hypothesis”. These economists believe that racial discrimination plays a major role in inferior black wages. Darity and Meyer’s have done the most notable research in this area and they have concluded that the explanations in the labor quality hypothesis may be valid, but they fail to explain everything about the large gap between black and white wages. Their research shows that premarket inequality has no bearings on the wage gap because even
among high school dropouts with comparable premarket skills, there is a racial wage gap. This shows that something more than labor quality is determining wages.\textsuperscript{11}

\textbf{8.2 Brazil:} The developing area of Brazil has one of the largest income equality gaps in the developing world. According to Brazil economist Benedict Clements, "Income distributions tend to be more unequal in Latin America, but in no other Latin American country is the gap between rich and poor as wide as in Brazil." In fact, in a Gini index of the income distribution of 150 countries, Brazil was ranked number 148, and things are getting worse.\textsuperscript{12}

Brazil has a majority (white) and minority (black) racial structure like the United States. They are different in two ways, however. First, in Brazil, race is perceived as a color continuum rather than a dividing line. Although the US population of mulattos, or persons mixed with white and black, is on the rise, in Brazil they are a large enough population to have their own division in the International Census. The second difference is that the Brazilian minority population is much larger than that of the United States. According to the CIA international factbook, the ratio of whites to blacks and mulattos in Brazil is 55 to 44. This is a big difference from the US’s 83 to 13.\textsuperscript{13}

The black-white income gap in Brazil is even larger than it is in the United States. In Brazil, in 1976, blacks and mulattoes made an average wage that was 53 percent less than that of whites.\textsuperscript{14} So how do Brazilian economists explain this seemingly blatant evidence of racial prejudice? There are two schools of thought on this issue. The first is called the class-over-racism model. They believe that racism does not exist in Brazil because of the absence of two distinct racial groups. They theorize that any
seeming prejudice in the country is due to class rather than racial issues. Economists in this school of thought believe that if blacks and mulattos achieve higher levels of education and income, then the "racial prejudice" will disappear. The core of their theory lies in the thought that "racial inequality is a vestige of the past that is destined to be overcome by the forces of modern capitalism." In their opinion, racism is merely a reflection of differences in human capital that seems to distinguish specific ethnic groups.\textsuperscript{15}

The second school of thought is called the Sao Paulo school. Peggy Lovell has done the most notable research in this area. She has concluded that the explanations in the class-over-racism model may be valid, but they fail to explain everything about the large gap between black and mulatto and white wages. Her research shows that if the class-over-racism model is correct, then the two decades between 1960 and 1980 should have shown a significant decrease in the gap between black and mulatto and white wages. This, however, is not the case. Instead the gap mainly remained the same, showing even a slight increase from $6.5$ thousand in 1960 to $7$ thousand in 1980. This disproves the class-over-racism model’s capitalist theory because two decades of urbanization, economic expansion, and migration has failed to erase unequal wage distribution. This shows that something else is determining the wages.\textsuperscript{16}

7. Conclusion:

My research was centered on the association between ethnicity and income inequality in developed and developing countries. The findings of this study are focused primarily on the United States and Brazil over the decade of the 1980s. The research clearly shows that there is a strong association between ethnicity and income inequality.
Although many economists have devised a host of explanations to account for the large racial wage gap in these two countries, I have shown that after controlling for these factors, there is still a large portion of the wage gap left unexplained. This unexplained portion must therefore be a result of race specific factors; this proves an association between ethnicity and income inequality.

The goal of this research is to add more to a scarce literature on this important topic. I have used the general opinion of political scientists and economists on this issue, and furthered their conclusions. I have shown that a significant relationship exists between ethnicity and income inequality in both developed and developing countries. Although no international organizations and very few political scientists and economists have recognized that a relationship exists, they can not deny that in countries with majority-minority racial structures and large gaps between the rich and poor, minorities are usually concentrated in the poorest sectors of the economy. If economists and political scientist can accept the conclusions of my research, then maybe they will have a better understanding of the causes of income inequality and possibly be one step closer to bringing the average incomes of both blacks and whites and rich and poor together.
End Notes


3. "The Causes of Income Inequality"


6. Telles, 188.


11. Darity and Myers.


14. Telles, 186.


16. Lovell, 18.
Bibliography

Books

Journals/Magazines

Web Sites
Central Intelligence Agency, "International Factbook,"
"The Gap Between the Rich and the Poor,"
"The Causes of Income Inequality,"
US Census Bureau, "Income Inequality,"